



Office of Health Plan Administration
P.O. Box 720724
Sacramento, CA 94229-0724
Telecommunications Device for the Deaf, TTY 1 (800) 795-2929; (916) 795-3240
(916) 795-3579; FAX (916) 795-1513
Toll Free: **888 CalPERS** or **888-225-7377**

December 18, 2007

AGENDA ITEM 4c

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Consolidation of Pharmacy Benefits Management Services
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Introduction

As part of the five year plan, the Health Benefits Branch (HBB) launched a study to evaluate the potential value of consolidating Blue Shield Health Maintenance Organization (HMO) plan's current prescription drug benefit into the drug benefits under Medco, the current prescription drug benefit manager for the Self-Funded Preferred Provider Organization (PPO) health plans. The purpose of the study is to determine if CalPERS could realize improved financial results from a combined prescription drug program, without adverse effect on clinical management and program administration, and with minimal member disruption.

Background

Since October 2007, HBB staff has been working with Mercer in conducting this analysis. HBB staff provided Mercer with de-identified Blue Shield prescription claims data for the period of study. The same claims were then re-priced by Medco to compare the range of current financial terms under each program. This analysis included a comparison of unit cost discounts, dispensing fees, manufacturer rebates, administrative fees, clinical program fees, and member copays under the current Medco financial arrangement to the current actual pharmacy premium under the Blue Shield HMO.

In addition, comparative analyses have been conducted on both provider network and formulary files in order to identify differences between the two programs. This analysis allows staff to quantify the scope of accommodation that might be necessary during a transition period and to evaluate the extent of potential member disruption that could occur in the event that a decision is made to proceed with the consolidation of pharmacy services under Medco's operations.

The HBB staff and Mercer have held discussions with both Blue Shield and Medco teams to ensure that all aspects of current pharmacy management approaches are understood and, to the extent possible, appropriately accounted for in this study.

A full update on the finding of this study and any resulting suggested action steps will be presented at the February 20, 2008, HBC meeting.

V. STRATEGIC PLAN:

This request relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

This is an information item only.

Marcine Elvin Crane, Jr, MS, CPA, Chief
Office of Health Plan Administration

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch